

China / Hong Kong Company Update

Yanlord Land Group

Bloomberg: YLLG SP EQUITY | Reuters: YNLG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Mar 2022

BUY (Upgrade from Hold)

Last Traded Price (1 Mar 2022): S\$1.19 (STI : 3,279)

Price Target 12-mth: S\$1.43 (20% upside) (Prev S\$1.25)

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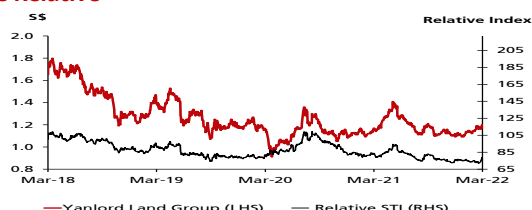
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What's New

- Margin compression should be fully reflected after consecutive years of sharp profitability deterioration
- Superior presales outlook both in absolute and relative terms, thanks to its decent liquidity position that is largely unaffected by turbulence in the property market
- Solid balance sheet to guarantee sustainable dividend yield of c.6%.
- Presales growth outlook – a key valuation driver – is now at an inflection point; Upgrade to BUY with TP of S\$1.43

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2020A	2021A	2022F	2023F
Turnover	23,918	34,833	36,636	39,305
EBITDA	9,026	8,788	7,973	8,554
Pre-tax Profit	7,485	7,757	6,504	7,021
Net Profit	2,592	2,656	2,598	2,719
Core Profit	1,600	2,460	2,598	2,719
Core Profit Gth (%)	50.0	53.8	5.6	4.7
Core EPS (RMB)	0.83	1.27	1.34	1.41
Core EPS (\$)	0.18	0.27	0.29	0.30
Core EPS Gth (%)	50.0	53.7	5.6	4.7
Core PE (X)	6.7	4.3	4.1	3.9
P/Cash Flow (X)	2.8	5.1	20.7	2.9
EV/EBITDA (X)	5.0	4.7	5.2	4.5
DPS (\$)	0.07	0.07	0.07	0.07
Div Yield (%)	6.2	6.0	6.0	6.0
Net Gearing (%)	62.6	47.6	42.5	31.2
ROE (%)	8.7	8.1	7.4	7.3
Book Value (\$)	3.48	3.82	4.04	4.27
P/Book Value (X)	0.3	0.3	0.3	0.3

EPS Rev (%): (24) New
 Consensus EPS (RMB) 1.51 1.32
 Other Broker Recs: B:0 S:0 H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Onset of an upcycle?

Investment Thesis

Improving presales outlook. Thanks to Yanlord's decent cash collection and balance sheet, the company's liquidity has been largely unaffected by the turbulence in the property sector and is expected to achieve c.Rmb75bn in presales (+26%) in FY22 after saving its bullets in 2021. This will likely place it as one of the fastest growing developers in 2022, especially when most of its peers are likely to scale back operations.

Margin compression in the price. Having experienced multiple years of sharp margin declines, earnings impact from this end should have been fully digested (FY21A GPM at 25.6% vs unbooked sales' GPM of c.25%) and reflected at current c.4.1x FY22F PE and 64% discount to NAV. Earnings downside and valuation compression from further margin deterioration should be limited in our view.

Solid balance sheet to safeguard dividend. Thanks to Yanlord's disciplined financial management, it was able to maintain an unchanged dividend of c.SGD6.8cents/sh for the 5th year despite uncertainties in the sector. We believe Yanlord will likely continue with its distribution practice, which translates to c.6% FY22F dividend yield.

Valuation:

Our TP is based on 4.9x FY22F PE, which is equivalent to its 5-year average forward PE to reflect Yanlord's solid long-term operational outlook.

Where we differ:

Critical factors reaching inflection point. Gross margins and presales outlook are critical factors driving Yanlord's share price and valuation. With the former showing signs of bottoming in FY21 and the latter to see a solid pickup relative to peers and in absolute terms, Yanlord's performance will likely be well supported in FY22.

Key Risks to Our View:

Inability to achieve expected construction and delivery pace; failure to replenish sufficient land and maintain operational scale; inability to maintain selling prices and profit margins.

At A Glance

Issued Capital (m shrs)	1,932
Mkt Cap (SG\$m/US\$m)	2,299 / 1,694
Major Shareholders (%)	
Zhong (Sheng Jian)	70.7
Free Float (%)	29.3
3m Avg. Daily Val. (US\$m)	0.88
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



Yanlord Land Group

Earnings impact from margin compression reflected in FY21 after consecutive years of sharp declines. Yanlord's FY21 results was below expectations on the back of 1) larger than expected margin compression; and 2) higher than expected selling expenses. FY21 GPM stood at 25.6% after witnessing three consecutive years of sharp margin declines, and is now close to its unbooked presales margin of c.25%. This indicates that most of the company's earnings pressure arising from margin deterioration should finally end. Additionally, with recognized gross margin historically a critical share price driver for Yanlord, signs of a potential bottoming of this metric should help alleviate potential downward pressure on the share price.

Solid FY22 presales outlook... Yanlord's FY21 presales declined by 24% y-o-y on the back of 1) bringing forward a portion of the presales to Jan-22 as Yanlord witnessed some

delay in obtaining presales permit for its project in Shanghai; and 2) the company intentionally saving its bullet in light of a moderating physical market. The company should see solid presales recovery this year, made possible by its decent land acquisition pace in 2021 that is equivalent to c.91% of the average land premium spent in FY18-20, and its decent liquidity position (reflected by its bond price of nearest maturity) that allows Yanlord to maintain a relatively good construction pace. The company targets to launch c.Rmb120bn of saleable resources (vs c.Rmb85bn in FY21) this year with a full-year presales target of Rmb75bn (+26% y-o-y), implying a relatively conservative sell-through rate assumption of 62.5% (vs 70% in FY21). This would place Yanlord in the "outperformer" category under our land acquisition and liquidity analysis and well ahead of most of its small- and mid-cap peers who are still dealing with liquidity stress.

Developers' land acquisition and bond price of nearest maturity

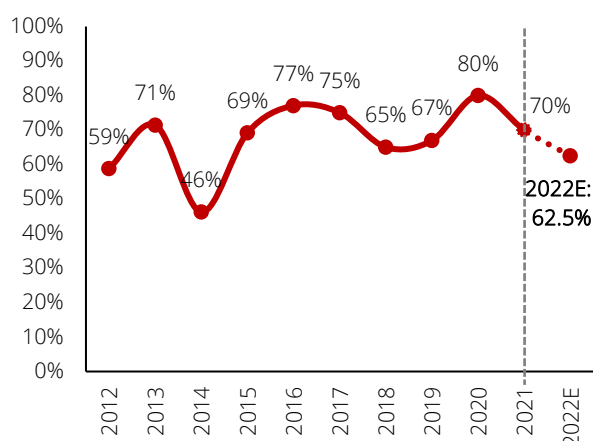
Companies	Stock Code	2021 consideration (Rmb mn)	2018-2020 average	% of 2021 land premium vs 3-year average	Price of nearest maturing offshore bond	Potential to outperform in presales in 2022?
Yuxiu Property	123 HK	89,445	42,151	212%	101.1	Outperformer
Greentown	3900 HK	162,968	89,519	182%	100.0	Outperformer
COGO	81 HK	39,504	31,231	126%	94.8	Outperformer
Longfor	960 HK	146,690	122,620	120%	100.2	Outperformer
China Jinmao	817 HK	112,862	99,067	114%	100.0	Outperformer
CR Land	1109 HK	151,397	143,914	105%	106.1	Outperformer
COLI	688 HK	137,886	142,870	97%	100.9	Outperformer
CIFI	884 HK	76,942	83,607	92%	94.3	Outperformer
Yanlord	YLLG SP	22,617	24,865	91%	97.2	Outperformer
Vanke	2202 HK	191,909	233,478	82%	101.3	Outperformer
China SCE	1966 HK	34,675	42,399	82%	99.1	Outperformer
Seazen	1030 HK	67,846	99,128	68%	98.8	Neutral
Country Garden^	2007 HK	141,619	186,800	76%	94.0	Neutral
Sunac	1918 HK	175,290	166,283	105%	69.7	Neutral
Ronshine	3301 HK	54,059	39,389	137%	40.0	Neutral
Zhenro	6158 HK	33,235	44,808	74%	13.7	Laggard
Zhongliang	2772 HK	52,623	73,700	71%	66.2	Laggard
Agile	3383 HK	27,833	41,626	67%	59.6	Laggard
Central China	832 HK	11,518	18,267	63%	65.9	Laggard
KWG^	1813 HK	5,554	19,991	28%	64.5	Laggard
Times China^	1233 HK	3,543	17,828	20%	77.7	Laggard
China Aoyuan	3883 HK	6,598	52,783	13%	18.5	Laggard
Yuzhou	1628 HK	4,299	36,785	12%	20.6	Laggard
R&F^	2777 HK	1,950	24,470	8%	30.2	Laggard

Note: ^ reported land acquisition consideration on attributable basis; We used the second nearest maturing bond due on Aug-22 for Agile; Bond prices refer to bid price quotation on 1 Mar 2022

Source: DM International, Companies, DBS HK

Yanlord Land Group

Yanlord's historical sell-through rates



Source: Company, DBS HK

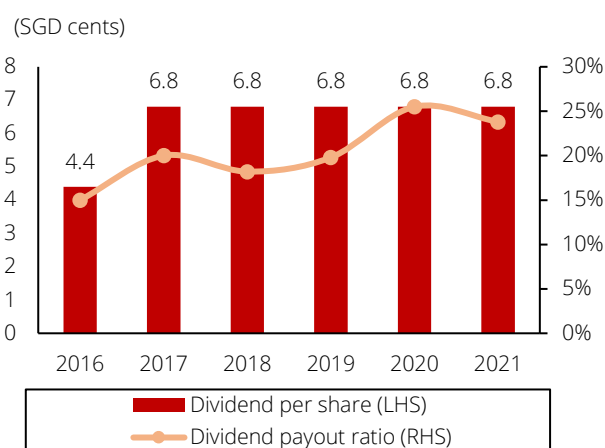
...with good potential to exceed presales targets. Around c.Rmb60bn of its total saleable resources are in Shanghai/Shenzhen and another Rmb30bn in other key YRD cities, with an estimated ASP of >Rmb40k/sm. This indicates solid project quality and high likelihood for the company to exceed its prudent sell-through assumption and presales target. With presales growth being another critical factor that has high correlation with Yanlord's forward PE, we believe the company's valuation should be well supported by its solid presales outlook going forward.

Solid balance sheet and liquidity position... As at Dec-21, Yanlord stood firmly within the "Green Category" under the "Three Red Lines" with its disciplined financial management. Net gearing ratio was well maintained and improved to a decent 49.0%, with average funding cost down by another 0.1ppt to 4.9% during 2H21. Liquidity was strong with restricted cash representing <20% of Yanlord's total cash on hand as at Dec-21, thanks to the company's solid cash collection ratio given its more expensively priced projects that command higher down payments. Additionally, unlike many of its peers, Yanlord is not facing refinancing pressure as its offshore bonds are not yet due (earliest in Apr 2023), and it has zero exposure to onshore bonds and non-standardised financing products (e.g. WMPs, etc).

...that offers good support for its decent dividend yield and places the company well for land acquisition opportunities Yanlord has maintained its absolute dividend distribution of SGD6.8cents/sh for the 5th consecutive year despite current turbulence and uncertainties in the sector, made possible

by its decent balance sheet and healthy liquidity position. We believe the company is well positioned to maintain this absolute distribution track record going forward, which will translate into a 5.7% FY22F dividend yield. Meanwhile, the company's healthy financials place it in a good position to take advantage of potential land acquisition opportunities in the public land market and/or consolidate interests in some of its JV/associate projects.

Yanlord's historical dividend per share



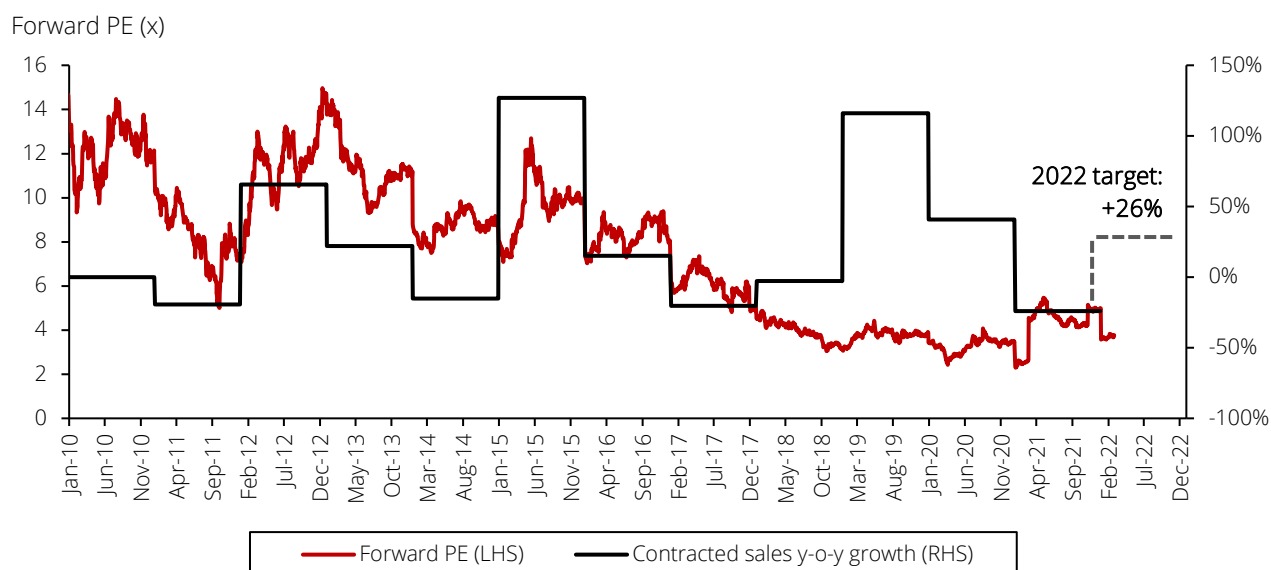
Source: Company, DBS HK

Land acquisition pace a key factor to monitor. Despite the company's relatively decent landbanking in 2021, Yanlord is still slightly short of saleable resources with only c.Rmb196bn of unsold landbank as at Dec-21. This is equivalent to slightly more than 2 years of Yanlord's FY22F presales. While this would still place Yanlord ahead of many of its peers, the company's land acquisition progress should still be closely monitored to evaluate its ability to maintain its operational scale.

Critical factors reaching inflection point – Upgrade to BUY. On one hand, both of Yanlord's critical factors are showing encouraging signs of improvements, with recognized margins bottoming out and presales outlook reaching an inflection point. On the other hand, the company's current FY22F PE of 4.1x, deep discount to NAV of 64% alongside a decent c.6% FY22F dividend yield is starting to offer value to investors. We therefore upgrade the counter to BUY with TP of S\$1.43/sh, pegged to the company's 5-year historical average forward PE.

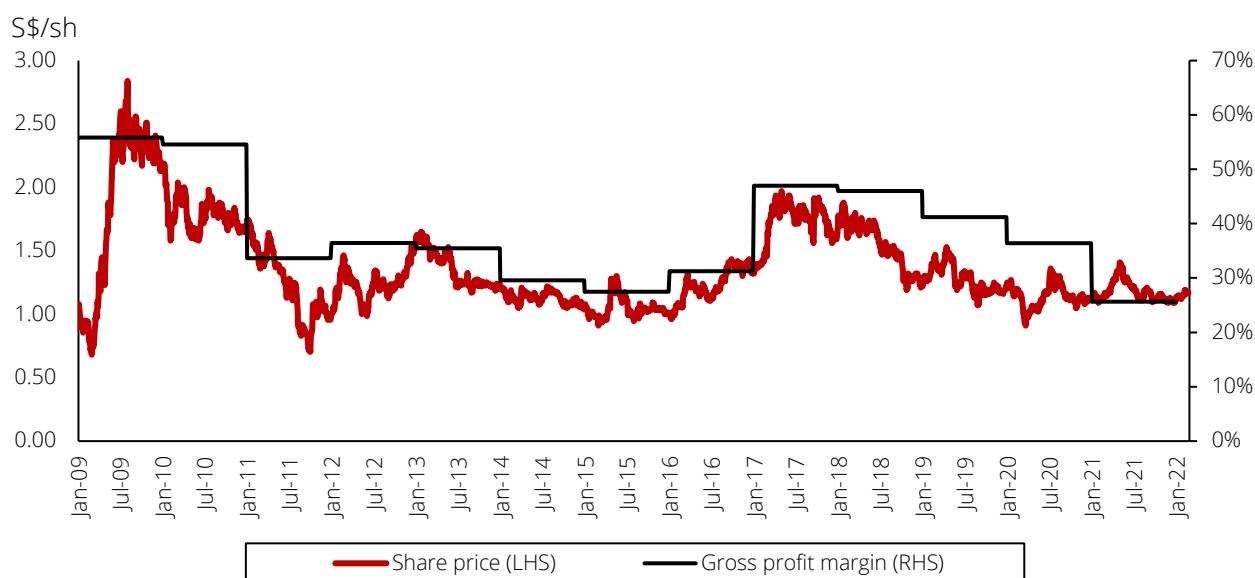
Yanlord Land Group

Yanlord's 1-year forward PE vs presales growth



Note: Relationship between forward PE and contracted sales growth was distorted in 2019-20 alongside a notable drop in attributable interest
Source: Bloomberg Finance L.P., Company, DBS HK

Yanlord's share price vs recognised GPM



Source: Bloomberg Finance L.P., Company, DBS HK

FY21 results summary

FY Dec (RMB mn)	FY20	FY21	y-o-y %	FY21 Comment
Revenue	23,918	34,833	46%	
Property development	20,960	31,035	48%	Led mainly by a 50% increase in recognised GFA that was partially offset by a 2% decline in recognised ASP
Property investment	1,139	1,306	15%	Driven from higher revenue from hotels in Sanya and Zhuhai and rental income from Yanlord Riverside Plaza
Others	1,820	2,493	37%	Property management revenue rose 15.5% y-o-y to Rmb939m
COGS	(15,210)	(25,901)	70%	
Gross Profit	8,708	8,932	3%	GPM slid 11ppt to 25.6%
Fair value G/L on investment properties	1,120	133	-88%	Derived mainly from higher FV gain recognised in FY20 including retail portion of Yanlord Reverie Plaza in Shenzhen, Yanlord Landmark in Nanjing
Interest income	561	285	-49%	
Other operating income	502	351	-30%	
Net forex gain/ loss	(3)	65	n.a	
Selling expenses	(630)	(621)	-1%	Selling expense to contracted sales up 1ppt due to delayed launch of Shanghai projects to Jan-22
Administrative expenses	(1,233)	(1,569)	27%	
Other operating expenses	(18)	(39)	118%	Led by increase in R&D and donations
Finance costs	(1,541)	(1,031)	-33%	Due mainly to decrease in interest-bearing debts and increase in capitalized interest
Share of profit (loss) of associates and jointly controlled entities	20	1,251	n.a	Mainly due to a increase in contribution from The Mansion In Park Ph1, Riverbay Century Gardens, Riverside Gardens, Tangshan Nanhu Eco-City, Century Gardens and Sino-Singapore Nanjing Eco Hi-tech Island from JV
Pre-tax income	7,485	7,757	4%	
Land Appreciation Tax (LAT)				
Income Tax Expenses	(3,832)	(3,719)	-3%	
Total Tax	(3,832)	(3,719)	-3%	
Minority Interests	(1,060)	(1,381)	30%	
Reported profit	2,592	2,656	2%	
Core earning	1,391	2,273	63%	
Gross profit margin (%)	36.4%	25.6%	↓ 11 pts	
Core net profit margin (%)	5.8%	6.5%	↑ 1 pts	
Reported net profit margin (%)	10.8%	7.6%	↓ 3 pts	
SG&A as % of revenue	7.8%	6.3%	↓ 2 pts	
SG&A as % of contracted sales	2.4%	3.7%	↑ 1 pts	
Effective Tax Rate (%)	51%	48%	↓ 3 pts	
Reported EPS (RMB)	1.34	1.38	0%	
Core EPS (RMB)	0.72	1.18	63%	
DPS (RMB)	0.342	0.332	-3%	
Dividend payout ratio (on reported EPS)	25%	24%	↓ 1 pts	
Contracted sales (Rmb m)	78,455	59,587	-24%	
Contracted ASP (Rmb/ sm)	36,638	31,889	-13%	
Recognized Sales (Rmb m)	20,960	31,035	48%	
Recognized GFA ('000 sm)	697	1048	50%	
Recognized ASP (Rmb/ sm)	30,076	29,612	-2%	
	<u>FY20</u>	<u>FY21</u>		
Net debt to equity ratio	63%	49%	↓ 14 pts	
Cash (Rmb m)	17,200	21,552	25%	
S/T debt as % of total	19%	22%	↑ 3 pts	
	<u>Jun-21</u>	<u>Dec-21</u>		
Net gearing ratio	50%	49%	↓ 1 pts	
Cash to ST debt	2.7	2.3	-17%	
Adj. liabilities to asset ratio	53%	56%	↑ 4 pts	

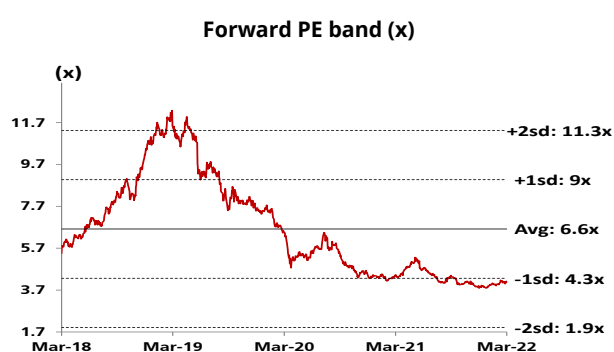
Source: Bloomberg Finance L.P., Company, DBS HK

Yanlord Land Group

Company Background

Yanlord Land Group Ltd (Yanlord) is a real estate development company focusing on high-end and luxury residential developments. As at Dec-21, it had an established land bank of over 9.9m sm in 20 major cities including Shanghai, Nanjing, Tianjin, Chengdu, Suzhou, Shenzhen, and Zhuhai.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Yanlord Land Group

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Sales of properties	16,787	20,960	31,035	32,078	33,835
Rental income of investment	914	1,139	1,306	1,567	1,880
Others	966	1,820	2,493	2,991	3,589
Total	18,666	23,918	34,833	36,636	39,305

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	18,666	23,918	34,833	36,636	39,305
Cost of Goods Sold	(10,983)	(15,210)	(25,901)	(27,483)	(29,501)
Gross Profit	7,684	8,708	8,932	9,153	9,804
Other Opg (Exp)/Inc	1,203	484	312	0	0
Operating Profit	7,166	7,329	7,054	6,728	7,303
Associates Inc	343	20	1,251	1,246	1,252
Net Interest (Exp)/Inc	(1,276)	(1,541)	(1,031)	(1,469)	(1,533)
Exceptional Gain/(Loss)	2,561	1,677	483	0	0
Pre-tax Profit	8,795	7,485	7,757	6,504	7,021
Tax	(3,607)	(3,832)	(3,719)	(2,832)	(3,105)
Minority Interest	(1,838)	(1,060)	(1,381)	(1,075)	(1,197)
Net Profit	3,350	2,592	2,656	2,598	2,719
Core Profit	1,067	1,600	2,460	2,598	2,719
Sales Gth (%)	(25.0)	28.1	45.6	5.2	7.3
Net Profit Gth (%)	(5.5)	(22.6)	2.5	(2.2)	4.7
Core Profit Gth (%)	(66.2)	50.0	53.8	5.6	4.7
Gross Mgn (%)	41.2	36.4	25.6	25.0	24.9
Core Profit Margin (%)	5.7	6.7	7.1	7.1	6.9
Tax Rate	41.0	51.2	48.0	43.5	44.2

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	42,113	41,224	44,005	43,689	43,373
Invt in Assocs & JVs	8,833	10,493	12,172	12,172	12,172
Other LT Assets	9,414	8,575	7,311	7,311	7,311
Cash & ST Invt	14,287	17,322	21,820	25,770	33,013
Other Current Assets	55,248	68,946	69,140	77,917	79,848
Total Assets	129,895	146,560	154,448	166,859	175,716
ST Debt	14,478	7,991	9,189	9,189	9,189
Creditors	27,079	38,547	38,180	44,558	47,139
Other Current Liab	11,603	18,909	23,853	23,853	23,853
LT Debt	31,164	34,520	33,485	36,485	39,486
Other LT Liabilities	5,665	5,975	5,885	5,885	5,885
Minority Interests	11,660	9,413	9,580	10,655	11,852
Shareholder's Equity	28,247	31,204	34,276	36,233	38,312
Total Capital	129,895	146,560	154,448	166,859	175,716
Share Capital (m)	1,932	1,932	1,932	1,932	1,932
Net Cash/(Debt)	(31,355)	(25,189)	(20,855)	(19,905)	(15,663)
Working Capital	16,566	11,490	7,107	9,505	8,856
Net Gearing (%)	78.6	62.6	47.6	42.5	31.2

Source: Company, DBS HK

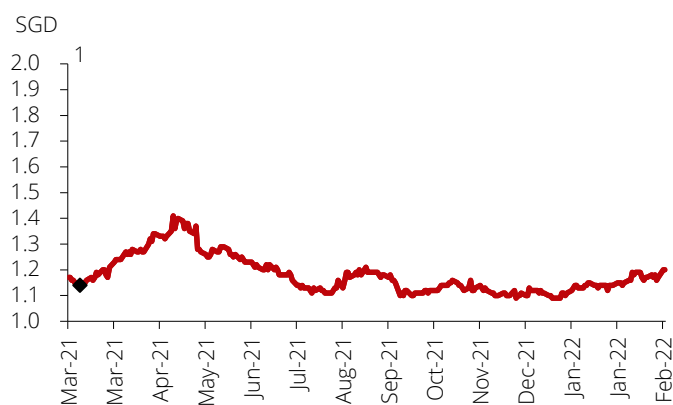
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Profit Before Tax	8,795	7,485	7,757	6,504	7,021
Assoc. & JV Inc/(loss)	(343)	(20)	(1,251)	1,246	1,252
Tax Paid	(2,787)	(2,734)	(2,407)	(2,832)	(3,105)
Depr/Amort	193	316	316	316	316
Chg in Wkg.Cap.	8,530	4,128	7,835	(3,473)	(547)
Other Non-Cash	(10,643)	(5,291)	(10,161)	(1,246)	(1,252)
Operating CF	3,744	3,882	2,086	515	3,685
Net chg in inv.	6	16	13	0	0
Assoc, MI, Invsmt	(77)	(900)	2,204	0	0
Investing CF	(71)	(884)	2,217	0	0
Net Chg in Debt	4,677	(3,453)	125	3,000	3,001
New Capital	0	0	0	0	0
Dividend	(652)	(661)	(641)	(641)	(641)
Other Financing CF	(4,382)	4,716	716	1,075	1,197
Financing CF	(357)	602	200	3,434	3,558
Chg in Cash	3,500	3,382	4,352	3,950	7,243
Chg in Net Cash	(271)	6,166	4,334	950	4,242

Source: Company, DBS HK

Yanlord Land Group

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	8-Mar-21	S\$1.15	S\$1.25	Hold

Source: DBS HK

Analyst: *Danielle Wang*

Ken He

Jason Lam

Zoe Zhang

Dexter Chun

Ben Wong

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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